

THE DIRECTOR OF
CENTRAL INTELLIGENCE

National Intelligence Council

5 December 1983

NOTE FOR: Director of Central Intelligence

This article on Hong Kong's future, by FORTUNE's Asia editor, appears in the current issue of the Chinese-language version of Reader's Digest. It's a good report of the local mood, and it makes two points I've not seen before:

- Peking leaders are utterly ignorant of what makes Hong Kong go; thus they may blunder forward without realizing the damage they are doing.
- Hong Kongers are beginning to grasp that a loss of freedom means economic disaster; thus they might be more resistant to Peking than generally thought.

Hem
Herbert E. Meyer
VC/NIC



25X1

HONG KONG'S FUTURE

Louis Kraar

For the more than 5 million Chinese of Hong Kong, the future is suddenly now. The People's Republic of China adamantly vows to take back the capitalist city-state from British administration within 14 years. Already, Peking's words alone have spurred some flight of Hong Kong Chinese expertise and capital, key ingredients of the territory's vibrant prosperity. A professional woman who belongs to the Hong Kong Observers, a band of young Chinese intellectuals, says: "1997 no longer looms as something far off, but is a dark cloud that causes psychological pain and suffering today."

Deng Xiaoping, China's strongman, revealed his 1997 plans at a private meeting with 45 Hong Kong members of the Chinese People's Consultative Conference in May. "Hong Kong," Deng said, "will be governed by the people of Hong Kong." He defined those who will be responsible for self-administration as "patriots"--presumably not pro-Taiwan people--who have resided in Hong Kong for at least seven years. Deng told Hong Kongers that they have nothing to worry about. Their basic lifestyle would remain much the same under Peking's sovereignty. As a special administrative region of China, Hong Kong would keep its own local government, police, courts, currency, passports, and international economic relations.

13

Moreover, Deng warned that if the British failed to agree on arrangements for the territory's future by September, 1984, China would simply proclaim its solution. In short, Peking considers that the transition from British rule has already begun.

2-

Having heard Deng's plans first-hand, How Sai-Chu, who heads Fook Lee Construction Co. and considers^S himself a capitalist, professes confidence in the future. He says, "Eventually China will give a date on how long Hong Kong will be allowed to retain its capitalist system. The Chinese have not decided whether it should be for 30, 50, or 70 years--but it will be for a long time." Not ~~knowing~~^{knowing} how long any feature of the self-administration scheme can last, however, troubles others.

Most Hong Kongers, in fact, are visibly chilled by Peking's vision of their not-so-distant future. Their reaction has been most dramatically expressed in deeds, not words. In September, a barrage of propaganda from the People's Republic and no ~~sign~~^{sign} of progress in negotiations with Britain caused a whiff of panic in Hong Kong. Its people hurried into banks to change their money into U.S. dollars, sending the local currency to a record low and exhausting the supply of greenbacks at some bank branches. Others swept through supermarkets to buy rice, cooking oil, and other staples before the devaluing currency forced up prices of imported items. People in the territory from all walks of life know how to look after their economic interests. They voted with their bank accounts. Peking, in effect, talked Hong Kong into what is now popularly termed "a crisis of confidence."

Britain and China have agreed on the common goal of preserving Hong Kong's stability and prosperity--but hardly anything else. China may endanger its options by talking stridently about negotiations that both nations agreed to keep confidential. Peking even trumpets objections to Britain claiming a sense of moral responsibility toward Hong Kong's people. As the People's Daily of Peking put it, "Only the Chinese government can be their true representative."

3-

A compromise solution on Hong Kong is still possible, if China genuinely considers modernization its highest priority. Without a healthy, cooperative Hong Kong, Deng and his successors can write off much of their ambitious hopes for the four modernizations program. The city-state not only provides more than one-third of China's foreign exchange, but is its most vital door to modern management, technology, and know-how. Those tools are in the minds and skills of Hong Kong Chinese. No bright future for Hong Kong will work without their assent.

Sir Sze-yuen Chung, the senior unofficial member of Hong Kong's Executive Council, says, "What we need is some assurance or guarantee that a capitalist system can survive within a communist system." There is a way of doing that. An international buffer between China's sovereignty over Hong Kong and the operation of its system would bolster local confidence. The precise form of that buffer could be designed--assuming China puts raising the living standards of one billion Chinese above stubborn pride. Peking could even assign the administration of Hong Kong to a special corporation under a firm, longterm contract.

And diplomats as shrewd as both the Chinese and British could make certain that a buffer solution, whatever its details, also meets the legitimate needs of China's national pride. Britain, among other things, could offer an apology for using the threat of gunboats to impose humiliating treaties on China during the weak Qing Dynasty.

4-

Britain, in effect, has quietly proposed one form of buffer, trading recognition of China's sovereignty for continuing British participation in running Hong Kong for several decades beyond 1997. So far, Peking flatly rejects that idea. A ranking Hong Kong government official says, "The buffer doesn't necessarily have to be run by British. The important thing is preserving a system that Hong Kong people trust."

The need for a transition period beyond 1997 is bluntly explained by Stephen Cheong, 42, managing director of Lee Wah Weaving Factory and an unofficial member of the Legislative Council of Hong Kong. "Let us make no bones about it," he says. "The political upheavals of the past three decades in China are enough to instill fear in people here. It's ~~unlike~~^{useless} for China to appeal to our faith and patriotic feelings unless we know what self-administration really means."

Cheong, who studied chemical engineering in Britain and wants to remain in Hong Kong, has expressed his concern to officials in Peking. Their response: Hong Kong people have the ability to sort out details of self-administration. Cheong says, "We jolly well have the ability. But how will we be allowed to exercise that ability without possible interference from our socialist motherland?" He wonders, among other things, whether Hong Kongers would be able to choose their own government officials. China has avoided any pledge of free elections. Cheong asks, "What if someone chosen by Hong Kong is unacceptable to Peking?"

5-

Doubts about self-administration have spread, too, because China keeps demonstrating its incomprehension of what makes Hong Kong tick. One recent visitor from Peking to Hong Kong demanded to know why the Hang Seng Bank determines the rise or fall of the stock market. He mistook the Hang Seng index, a measure of the market's performance, for bank control of its movements. Even more misplaced have been complaints from leading P.R.C. economists that the Hong Kong government could prevent the currency's value--determined by free market forces--from slipping. The claim is ludicrous since a major seller of Hong Kong dollars is the local branch of the Bank of China.

China's failure to show an understanding of the territory's uninhibited system reminds another Hong Kong citizen of an old Chinese saying: "You cannot teach the insect that lives only for a summer that in winter there is ice."

Promises to allow horse-racing and speculation to continue after 1997 further convinces Hong Kongers that Peking really doesn't understand them. As T.L. Tsim, a lecturer at the Chinese University of Hong Kong remarks, "This indicates believing that things like gambling are central to our way of life and somehow forgetting to take note of our love of freedom and personal liberties." Tsim, previously an aide to the chairman of the broker Sun Hung Kai, is one of those remarkable Hong Kongers whose mind moves easily between the Chinese and Western cultures.

Gangren zhigang, self-administration under Chinese sovereignty, ~~does have~~ ^{has} surface appeal to Hong Kong citizens. Simultaneously, they are being offered an unprecedented chance for self-government, while also helping their cultural homeland. But Tsim remarks, "It's all very well to say that under the Chinese scheme Hong Kong people will be allowed to govern themselves. We know the people of Hong Kong will not assume that leadership role if they believe they will take power

6-

from the British only to be forced to hand it over to the Chinese."

The more Peking has beat the drums for its plan, the more questions get raised in the minds of Hong Kong people. Most of them, of course, are either refugees or children of refugees--families that have chosen to leave the People's Republic. Tsim points out, "They have a built-in bias against communists and are keen for the British to carry on. Indeed given their background, how can anyone expect them to be otherwise?"

Recently, a dozen leaders of food hawkers associations in Hong Kong got together to express their views to Maria Tam, a barrister and a member of Hong Kong's Executive and Legislative Councils who has been surveying grassroots opinions. Two of the hawker leaders have no qualms about coming under the sovereignty of China, saying: "We are Chinese." The majority prefer the status quo because as one hawker put it, "We are also Chinese, but we want to be free Chinese."

After meeting with the hawkers, Maria Tam sat in her cluttered office one afternoon considering the possible realities of life under gangren zhigang. "Imagine that the governor of this special administrative region receives a call from Peking saying, 'We're not too pleased with what happened in Hong Kong yesterday.' It would take a very brave governor to remain independent under those circumstances." Her big personal worry, Ms. Tam, says, is that China's leaders "would be tempted to interfere with a Hong Kong S.A.R. The temptation to influence Hong Kong by personal contact or official instructions would be difficult to resist if some policy here should look outrageous to the rest of China."

7-

Above all, Hong Kongers wonder if a self-administered territory in China could retain an independent judiciary. Hong Kong Chinese may not be feverently devoted to British colonialism, but they value the rule of law as ~~the~~ protection for both property and personal rights. Ms. Tam says, "In an S.A.R., local judges could be subjected to political control. And when you don't have the freedom of the individual protected by an ~~independent~~ ^{independent} judiciary, you can say good-bye to what's fair here now."

Though Chinese officials assert that Hong Kong can continue its present legal system in 1997, this raises nagging questions for Maria Tam. "Would the government permit ~~the~~ people here to criticize it? Would people in this S.A.R. be permitted to criticize the communist central government? In theory they say yes, but I wonder if in practice China would put up with it."

Such doubts in the minds of Hong Kongers are ~~h~~^hlightened by what they see happening in China. One example of justice took place in Peking this autumn, when 80,000 spectators watched 30 suspected criminals being swiftly tried, found guilty of such offenses as murder, arson, and tax evasion, and immediate^{ly} carried off to receive identical punishment--a shot in the back of the head. The opportunity to appeal the death sentence was ~~obviously~~ ^{obviously} missing.

A Hong Kong lawyer and businesswoman passionately ^{ly}concerned about the implications of self-administration remarks: "If the authorities here try to lay their hands on the ordinary guy in the street, he'll say, 'I have my rights.' Those rights don't seem to exist in China. What would happen under Chinese sovereignty if the government wants to get you? (Paradoxically, this outspoken woman is discouraged from making attributable public statements on political issues by her employer, a Western multinational.)

8-

A newcomer to Hong Kong from China also increases local skepticism about the PRC's concepts of justice. Lin Xiling, a 47-year-old lawyer, has come to live in the territory after being released from a long jail-term in China as a counter-revolutionary. Her offense: expressing opinions during China's 100 Flowers Campaign, which officially invited critics to speak out. She says: "Law is not as important in China as political power. Those who are responsible for the administration of justice are not even sure of their own safety."

Merely saying that Hong Kong's legal system can remain intact does not solve fundamental problems for its lawyers. They operate under a system based on English common law, which evolves as new court decisions are made. Once Hong Kong's connection with the United Kingdom is severed, what will be the foundation of the legal system? Will the local Judicial Service Commission, one safeguard of judicial independence, still be able to recommend appointments of judges? Can Hong Kong judges continue using a body of law so vast that translating all of it into Chinese is a practically impossible task? One lawyer says, "Promising us that nothing will change only demonstrates China's lack of understanding of our legal system."

Embedded in such technicalities is a more fundamental concern. Henry Litton, chairman of the Hong Kong Bar Association, notes, "The Chinese political system has the state governing almost every aspect of a citizen's life. Hong Kong, on the other hand, has been successful because state intervention has been kept to a minimum." Can Peking tolerate that basic difference in a Hong Kong special administrative region?

9-

The rule of law is merely a formal way of saying that everyone in Hong Kong--from foreign businessmen to suspected criminals--is treated ~~in a predictable way~~ fairly. Not even the British governor can tell the courts how to rule on a case. Dr. Philip C. Kwok, chairman of Wing On Holdings and a member of the Legislative Council, says, "We have an internationally recognized legal system that people can rely on, not kangaroo courts. This is a must."

Rather than defending British colonialism, most Hong Kong Chinese question whether a governmental system that leaves them alone can survive ~~after 1997~~ beyond 1997. Now Hong Kong largely runs itself, albeit with a governor appointed by London. In practical terms though, he cannot act without at least passive consent of a broad range of consultative bodies from every level of the territory. And anyone can sue the government and on the merits of the case even win. Leonard Rayner, regional correspondent for the Confederation of British Industry, asks: "How does a country with no understanding of equality under the law become the political umpire here? China has no qualifications for that role."

Fears that ~~an~~ even-handed administration may be eroded under an S.A.R. underlie most other questions about preserving Hong Kong's lifestyle. Can its press, which now represents a political spectrum from pro-Kuomintang to pro-Peking, survive and endure? Public education is another bold question mark. Dr. William Cheng, acting director of Hong Kong University's School of Education, observes: "It's unclear if schools will be allowed the same degree of freedom they now enjoy. For example, will the church schools be allowed to continue giving the same emphasis on religious studies that they do now?"

10-

Not long ago, a few thousand Hong Kongers gathered in Victoria Park to demonstrate against inflation, a right that many citizens doubt would remain under China's sovereignty. A Hong Kong government official maintains, "Anyone who tries to think of a future Hong Kong without these liberties is very much misguided." It has not escaped the notice of educated people in Hong Kong that China's constitution guarantees freedom of assembly and expression, which are not generally allowed in the People's Republic. Some outspoken authors of posters on Peking's short-lived "democracy wall" are in jail today.

A member of the Hong Kong Observers asks: "Will China really allow us to speak freely here? Can a child still aspire to be a doctor, a lawyer, or just to visit Disneyland--and still hope to actualize those dreams?"

As Peking advertised the virtues of self-administration, many Hong Kong businessmen and professionals have worried that Chinese officials failed to hear candid local reactions. Allen Lee, 43, a civic leader and managing director of Ampex World Operations, sensed that Peking was unaware of Hong Kong's deep misgivings about the scheme. He heard about some Hong Kongers going to Peking, listening politely, nodding agreement, then phoning home to unload their real estate holdings. As Lee views self-administration though, "It looks good in a simplistic way--before you examine the details."

11-

Lee, the son of a Shanghai textile trader who left just before the 1949 revolution, is essentially apolitical. He studied engineering in the U.S., has visited the People's Republic more than 30 times on business, and knows China's representatives in Hong Kong. Lee began meeting with other relatively young Hong Kong business and professional people, discovering a common concern with practical aspects of the self-administration plan. They did research on the issues, then personally took their case to Peking in May.

Before the group of 12 young professionals went into "this enormous room in the Great Hall of the People," Lee says, "we encouraged each other to tell the real story." He adds, "We knew that Chinese officials wouldn't believe us initially, which is why it took three hours."

To make certain their message was clear, Lee's group presented Chinese officials with a white paper spelling out their practical concerns. They handed the brief to a meeting presided over by Xi Zhongxun, leader of the National People's Congress. Their paper stresses that "we answer only to our own conscience." Hong Kong "is far from perfect, but it works, and that is what counts. It will be unwise to rock the boat."

Their brief has already proved to be prescient, especially its frank warning: "If China firmly intends to regain administrative control over Hong Kong in 1997, public confidence will immediately nosedive and Hong Kong will lose its prosperity in a very short time indeed."

12-

Mincing no words, the white paper explains what underlies Hong Kong's feelings of insecurity about gangren zhigang: "We must respectfully point out that the track record of China in the past decade or two is not such as would readily generate confidence in the people of Hong Kong, who have been following repeated political changes to the north of the border with concern and sometimes alarm." Some Hong Kongers, the paper notes, have already made contingency plans for leaving the territory with passports "bought" from such nations as the Dominican Republic. Many Hong Kong people hesitate to tell the Chinese government about their uneasiness "for obvious reasons," fear of being called "traitors." But the lack of confidence in Hong Kong is "plain and undeniable," demonstrated by an outflow of capital and professional people."

The unusually frank brief of the young Hong Kong professionals winds up by listing the everyday concerns they have about the self-administration scheme. "We do not think the present capitalist system of Hong Kong can continue after the sovereignty of Hong Kong reverts back to China....There's no such precedent that we know of where a dependent territory of a socialist country has practiced capitalism in isolation and managed to maintain its prosperity."

After reading that brief, Chinese officials still couldn't understand what a "crisis of confidence" meant. Finally, a medical doctor in the Hong Kong group put it in unmistakable human terms: "If I operate on a patient and made a wrong diagnosis so that he dies, it will be a long time before another person comes to me for an operation." Chinese officials got the idea.

Lee recalls that he and several colleagues had to spend ~~25~~ 25 minutes explaining to the minister for United Front organizations what the strength of the U.S. dollar had to do with the Hong Kong dollar. "I was stunned," Lee says. "That's the level of understanding among people in the hierarchy. We worry if they really understand what being an international commercial center means. They didn't understand."

13-

Xi Zhongxun, however, did assure the outspoken Hong Kong professionals: "We will not say or do anything to harm Hong Kong." Other Chinese officials also thanked the visitors for speaking their minds--giving them hope that China may face up to hard facts about Hong Kong.

Still, Peking has not even started to address many practical questions that would confront a self-administered Hong Kong under China's sovereignty.

++ How can the territory remain a free port amid restrictions on shipments of strategic material and technology to communist lands?

A committee of Western governments and Japan strictly controls such exports. Lee says, "China runs into this any time it wants to buy a computer. If we had that here, the Hong Kong electronics industry would be killed. I got the impression that Chinese officials had not even thought about this problem." Hong Kong, of course, could hardly stay a free port if international suppliers refused to send it high-technology items.

++ What will happen to Hong Kong's textile quotas?

Stephen Cheong of Lee Wah Weaving says: "Hong Kong owes its economic miracle to the international textile and clothing trade, which still accounts for 40% of our exports. That share is possible because of quota arrangements negotiated with our international trading partners. If Hong Kong's status is changed, what will their attitude be?" A change in political responsibility for Hong Kong could provide an excuse for protectionists in the U.S. and Europe to cut back those quotas. Maria Tam remarks, "A lot of people in neighboring Asian countries would be happy to use our quotas." So would China, which has a much smaller share of quotas than Hong Kong. Whatever happens requires consent from textile importing countries. The stakes ⁱⁿ

14-

this seemingly technical matter are high for Hong Kong, where garment and textile manufacturers employ more than 380,000 people, 40% of the industrial work-force.

++ Will Hong Kong people be able to travel freely on passports issued under China's authority?

Allen Lee says, "Their citizens have to apply for visas a long time in advance of traveling and then usually get only a single entry. We can't conduct business with that kind of passport." It's questionable whether Hong Kong business travelers could go to Taiwan and other places that don't readily welcome P.R.C. people. Stephen Cheong recalls once getting a 7 a.m. phone call from New York inviting him to discuss a business deal there--and hurrying off that same day to spend 24 hours in the U.S., then returning to Hong Kong. "That's the zest that makes Hong Kong click. Mobility and speed are extremely important in fully capitalizing on this spirit." Hong Kong's 200,000 traveling business people, of course, are crucial for landing orders that create jobs for others in the territory. Maria Tam says, "If we lose that ability, we'll be cut off, out of touch, and far less competitive. You cannot set up a government department to do all this free trading because so many Hong Kong business travelers are entrepreneurs."

++ Can Hong Kong still maintain an internationally-accepted currency?

The territory has emerged as the third largest financial center, after New York and London, partly because of an unrestricted currency. China's renminbi is not a trading currency. The collapse of the Hong Kong dollar's value--by 40% in the past year or so--is largely the result of political uncertainty. The currency took its sharpest fall once Peking insisted in bellicose public statement^s that there could be no alternative to Chinese sovereignty and administration.

15-

The value of the Hong Kong dollar is a vital measure of international confidence, which China has been unable to command so far with its 1997 plans.

++ How can Hong Kong remain prosperous if its business and professional leaders flee?

The real and present danger to Hong Kong's continuing prosperity is not capital flight, but a brain drain. As Stephen Cheong says, "Capital can be replaced, but the locomotive of economic progress here is some 80,000 businessmen, professionals, and technicians. Two years ago if I wanted a computer programmer, I could still get one from among our students overseas. Now virtually none of them wants to come back. Many medical doctors have sent their families to live in Australia to fulfill residence requirements and prepare for immigration. Even those people who can't afford to leave have scooped up their life's savings to send children ~~abroad~~ ^{abroad} to study and somehow stay on as ~~professional~~ ^{professional} S--then send for the parents in Hong Kong." Unless the hearts and minds of these people are eased about the territory's future, China could wind up gaining a territory without its most talented people--an empty shell.

Faced with such a gloomy prospect, one has to hope that Peking won't risk setting back its modernization drive by imposing a solution unacceptable to Hong Kongers. The best of them will find someplace else to live. Besides, upsetting the city-state of Hong Kong would also certainly make ^{China's hope for} peaceful reunification with Taiwan far less likely.

16-

Alternatives are still open to settle the Hong Kong problem with dignity. Terry Lautz, a Sinologist and field staff director of the Yale-China Association, says: "In Chinese culture, distinction is often drawn between form and substance. If the outward form is correct, a certain amount of deviation may be tolerated in reality." Thus some kind of international buffer to guarantee that Hong Kong genuinely administers itself under China's sovereignty should be possible.

Hong Kong people need some time, for they are light years ahead of China's economy. While the People's Republic lost a generation of trained people in the Cultural Revolution, Hong Kong was creating its vast pool of talent. The gap can hardly be closed by July 1, 1997. Hong Kong also needs some years to develop in one area that its people lag, ~~political~~ political experience.

While waiting and hoping, Hong Kongers may have discovered something important about themselves. Brian Tisdall, an attorney who has lived 21 years in Hong Kong and intends to stay regardless of its political ~~status,~~ ^{status,} says: ~~"When~~ ^{"When} we talk about the future, what we're really talking about is freedom. Many people are beginning to realize that the freedoms they have enjoyed for so long are the things they may have to do without. Hong Kong people are like someone living in an apartment with a wonderful view--and never appreciating it until someone starts blocking the view with a factory chimney."

--END--